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Viewing cable 07NICOSIA120, CYPRUS OIL AND GAS LICENSING RIGHTS CHALLENGED BY

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Understanding cables

Every cable message consists of three parts:

- The top box shows each cable's unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

To understand the justification used for the classification of each cable, please use this [WikiSource](#) article as reference.

Discussing cables

If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at the paragraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g. **#07NICOSIA120**.

Reference ID	Created	Released	Classification	Origin
07NICOSIA120	2007-02-08 15:40	2011-08-30 01:44	CONFIDENTIAL	Embassy Nicosia

Appears in these articles:

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OO RUEHWEB

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C O N F I D E N T I A L NICOSIA 000120

SIPDIS

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E.O. 12958: DECL: 02/06/2017

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SUBJECT: CYPRUS OIL AND GAS LICENSING RIGHTS CHALLENGED BY TURKEY

REF: 06 NICOSIA 1361

Classified By: Ambassador Ronald Schlicher. Reasons 1.4 b and d.

¶11. (C) Summary: The GoC intends to go forward with its first licensing round for the exploration and exploitation of potential offshore oil and natural gas deposits, despite strong criticism and thinly-veiled threats from the Government of Turkey and the Turkish Cypriot leadership. The GoC plans to auction off 11 offshore blocks lying to the south and southwest of Cyprus within Cyprus's Exclusive Economic Zone as delimited in agreements with Egypt (2003), Lebanon (2007) and Israel (under negotiation). None of the blocks fall between Cyprus and Turkey or off the coast of the area administered by Turkish Cypriots. Nevertheless, the GoT, which unlike the rest of the world community does not recognize the GoC, has strongly objected to the auction, arguing that the GoC does not have the right to enter international agreements without Turkish Cypriot consent, that the Turkish Cypriot community should share in any proceeds from Cypriot natural resources, and that any delineation of the continental shelf in the Eastern Mediterranean should include all the countries in the region.

According to the Turkish Cypriot press, Turkish Cypriot authorities granted permission five years ago to the Turkish Petroleum Incorporated Company (TPAS) to explore for oil and natural gas off Cyprus's north coast, although actual exploration had yet to begin. UK officials have told us privately that, while none of the current blocks impinge on the territorial waters of its Sovereign Base Areas (SBA), they do impinge on the SBA's continental shelf. While the UK is likely to find a way to note this publicly, the UK is unlikely to object to the process, having concluded that it will not affect its military operations. End summary.

First Licensing Round to Run February 15 to July 16

¶12. (U) On January 25, the Ministry of Commerce briefed the diplomatic community on its latest plans to auction off the oil and natural gas exploration and exploitation rights for 11 offshore blocks located to the south and southwest of Cyprus. (English language slides from this presentation, including a rough map of the blocks, are available on the Ministry's website www.mcit.gov.cy.) The 11 blocks cover approximately 60,000 square kilometers and are located in Cyprus's Exclusive Economic Zone as negotiated in agreements with Egypt (2003) and Lebanon (2007). The exact border of two of the blocks will depend on the outcome of GoC-Israeli negotiations reportedly under way. None of the blocks fall between Cyprus and Turkey or off the coast of the area administered by Turkish Cypriots. (Note: According to the MFA, the GoC opted for negotiating EEZ agreements rather than continental shelf agreements due to the relative ease of concluding the former, even though the latter would appear to provide more legal certainty. End note.) The GoC has hired Beicip Freilab, a subsidiary of the French Petroleum Institute, to be its outside consultant for the auction. Last year the Norwegian firm Petroleum Geo-Services (PGS) completed seismic surveys of the region, which interested companies can purchase from the GoC.

¶13. (U) It is too early to determine the extent of the possible reserves, and GoC officials are being careful not to speculate. Press reports, however, suggest that preliminary, unsubstantiated information suggests that there may be as many as six to eight billion barrels of oil (or the equivalent in natural gas) with an overall value of USD 400 billion -- although critics have dismissed this as wishful thinking and note that the relative depth of any likely deposits will make drilling extremely expensive.

¶14. (U) The first licensing round will officially open to interested companies on February 15 and close on July 16.

GoC officials have suggested that it may take as long as six months to evaluate all applications. Winning bidders will be invited to enter into production-sharing agreements that are likely to be signed shortly before the February 2008 presidential elections.

¶5. (U) Representatives of the Ministry of Commerce held briefings on the planned auctions for interested companies

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November 20 in London and January 30 in Houston. Both presentations were reportedly well-attended. Cyprus also promoted the auction at the February 1-2 NAPE Expo in Houston. The Embassy has informed U.S. companies about the auction through its website, the U.S. Export Assistance Center in Houston, and through other FCS channels. According to MoC officials, several U.S. companies have shown interest, although none have approached the Embassy directly. MoC officials have privately dismissed press speculation on which companies are likely to compete as wildly inaccurate.

Opposition from Turkey and the Turkish Cypriots

¶6. (SBU) The Turkish Government and the Turkish Cypriot administration have strongly denounced the agreements with Egypt and Lebanon and the planned auction. Both the GoT and Turkish Cypriots have publicly claimed:

-- that the Government of Cyprus does "not represent the island as a whole. Consequently neither the legislation adopted nor the bilateral agreements concluded by the Greek Cypriot Administration have any effect." This stance is based on the GOT policy -- rejected by the international community -- that the GOC is not the sovereign authority on the island.

-- the Turkish Cypriot community has a right to Cyprus's natural resources and should share in any proceeds from potential oil and gas deposits.

¶7. (SBU) The GoT has also claimed that any delineation of the continental shelf in a "semi-enclosed sea" like the Eastern Mediterranean should not be concluded bilaterally but multilaterally taking into account the interests of all the countries in the region. Consequently, the GoT has demarched Lebanon and Egypt over their agreements with Cyprus and asked the former not to ratify its January 2007 EEZ agreement with Cyprus, sent (pre-scheduled) navy vessels to patrol the sea south of Cyprus, and called on companies to respect Turkish sensitivities and refrain from participating in Cyprus's oil and gas exploration.

¶8. (U) Following Turkey's statements, the Turkish Cypriot press also announced that, in clear contradiction to the putative principles at play, the Turkish Cypriot "Council of Ministers" had given permission five years ago to the Turkish Petroleum Incorporated Company (TPAS) to begin exploring for oil and gas off the "TRNC" coast. While actual exploration had yet to start, TPAS would now accelerate its preparations.

TPAS, which according to the press lacks the technical capability needed for deep sea drilling, was reportedly looking to subcontract the work to a major international company.

UK Bases Have Issues, but HMG Unlikely to Oppose Auction

¶9. (C) A UK High Commission Official told us that the UK, having determined that the licensing round would not negatively affect its military operations at its two Sovereign Base Areas (SBA) in Cyprus, was very unlikely to object to the auction or place any obstacles in the auction's way, although technically some of the blocks may impinge upon

the SBA's continental shelf. (Indeed, the UK has been unequivocal in its statements acknowledging the GoC's legal rights). Consistent with its unilateral declaration accompanying the Treaty of Establishment of the Republic of Cyprus, (under which the UK pledged not to introduce commercial activities into the SBA and to pass all mineral rights to the GoC) the UK was not interested in any proceeds from the oil and natural gas. Opposing the GoC's exploitation of potential deposits in the SBA's continental shelf would also be politically damaging and further undermine the already weak support for the bases in Greek Cypriot public opinion. As a result, the UK would find a way to note its rights concerning the SBA's continental shelf without opposing the auction or the winning bidders' ability to exercise their exploration and exploitation rights. The UK would object, however, if the GoC were to auction of any areas within 6 miles of the SBA coastline. (Currently the nearest block falls 6 miles from the SBA. While insisting on its right to expand the SBA's territorial waters to 12 miles at a later date, the SBA currently claims only three.)

Comment

¶10. (C) The GoC's plans appear to be well within Cyprus's legal rights. While the GoT may not have a legal leg to stand on, its political opposition has the potential to sabotage the auction by scaring off many serious bidders. Most of the major international energy companies are already active in Turkey. Why risk a sure thing in Turkey to pursue unproven reserves in Cyprus? The GoC's timing of the auction also appears to have a political dimension, since it would allow contracts to be signed shortly before next year's Cypriot presidential elections. A successful auction would give Papadopoulos an electoral boost, and further distract attention from his failure to move the ball forward on the Cyprus problem. Nevertheless, as is often the case with the larger Cyprus issue, he is unwilling to explore any political compromises that could help blunt Turkish opposition and ensure the auction's success, instead doggedly insisting on the GoC's legal rights. Like most controversies on the island, this dispute is in essence a microcosm of the larger Cyprus problem and further demonstrates the zero-sum mentality that dominates thinking here. We continue to note publicly that the Government of Cyprus obviously has the right to enter into international agreements, but that the issue illustrates the essential point that the potential deposits be used in a way that enhances prospects for reunification of the island. Moreover, any disputes over the issues involved should be dealt with through peaceful, legal means. In short, this dispute once again highlights the need for a comprehensive solution to the Cyprus problem. We will also continue to inform U.S. companies about this opportunity and urge them to do the proper due diligence, as we do with all projects.

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